



STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	04/16/01	Bill No:	AB 695
Tax:	Sales and Use	Author:	Pescetti
Board Position:	Neutral	Related Bills:	AB 124X (Pescetti) AB 27X (Koretz) AB 51X (Daucher) AB 58X (Cox) AB 1319 (Cox) SB 877 (Poochigian) SB 1074 (Soto)

BILL SUMMARY

This bill would provide a sales and use tax exemption for sales and purchases of energy efficient residential and commercial refrigerators, room air-conditioners, clothes washers, and dishwashers, as specified.

ANALYSIS

Current Law

Under existing law, the sales or use tax applies to the sale or use of tangible personal property in this state, unless otherwise exempted or excluded by statute. Under current law, the sales and use tax applies to sales and purchases of appliances and solar paneling to the same extent as it applies to any other sale of tangible personal property that is not otherwise exempted or excluded from tax by statute.

Proposed Law

This bill would add Section 6356.4 to the Sales and Use Tax Law to provide a sales and use tax exemption for sales and purchases of energy efficient residential and commercial refrigerators, room air-conditioners, clothes washers, and dishwashers. The bill would define "energy efficient" as appliances that meet or exceed the applicable ENERGY STAR efficiency requirements developed by the United States Environmental Protection Agency and the United States Department of Energy. The exemption would be in effect until January 1, 2005.

The bill would state that it is the intent of the Legislature to, among other things, encourage and increase incentives for replacing and recycling inefficient appliances and to lower the demand for energy in California.

The bill would also require the Board and the State Energy Resources Conservation and Development Commission to prescribe regulations for the implementation of the proposed exemption.

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The bill would become operative on the first day of the calendar quarter commencing more than 90 days after the bill becomes effective.

In General

The California Energy Commission, with the passage of Senate Bill 90 (Sher, Ch. 905, Stats. 1997), has the authority to administer funds collected from the state's investor-owned utilities to support renewable energy technologies. Assembly Bill 1890 (Brulte, et al., Ch. 854, Stats. 1996), which also deregulated the electricity industry, established a new statewide renewables policy by providing \$540 million collected from Southern California Edison, Pacific Gas and Electric Company, and San Diego Gas & Electric over four years beginning in 1998 to support existing, new and emerging renewable technologies from 1998 to 2001.

AB 1890 also required the Energy Commission to submit a report to the Legislature outlining allocation and distribution recommendations for those renewables funds. This report, as adopted by the Legislature, became SB 90 - the administrative guidelines for the Renewable Energy Program.

Senate Bill 90 implemented the report's recommendations and created a Renewable Resource Trust Fund containing four accounts: the Existing Renewable Resources Account, the New Renewable Resources Account, the Emerging Renewable Resources Account (Buy-Down Program), and the Customer-Side Renewable Resources Purchases Account.

The "Buy-Down Program" provides cash rebates on eligible renewable energy electric-generating systems, such as small wind turbines, fuel cells, solar photovoltaics and other solar power generating equipment. The Commission provides a rebate of up to \$3,000 per kilowatt, or 50 percent off the system purchase price (whichever is less) of certified equipment.

COMMENTS

- 1. Sponsor and purpose.** This bill is sponsored by the author and is intended to provide an incentive to purchase energy efficient appliances in light of the state's current energy crisis.
- 2. The April 16, 2001 amendments, among other things, identify the energy efficient residential and commercial appliances proposed to be exempted and add a sunset date.** These amendments are consistent with the ENERGY STAR appliances identified under the United States Environmental Protection Agency's (EPA) Energy Star website (<http://www.energystar.gov>). Other products used for heating and cooling, for example, such as hot water heaters, clothes dryers, furnaces, central heat and air units, oven, and ranges are categorized separately and are not

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deemed to be "ENERGY STAR" appliances. The exemption would be in effect until January 1, 2005.

- 3. The proposed statute does not appear to be ambiguous and may not require a regulation.** The April 16, 2001 amendments would also require the Board and the State Energy Resources Conservation and Development Commission to prescribe regulations for the implementation of the proposed exemption. Under Section 7051 of the Sales and Use Tax Law, the Board is already authorized to prescribe, adopt, and enforce rules and regulations relating to the administration and enforcement of that law. The Board prescribes regulations when it determines that a regulation is reasonably necessary to effectuate the purpose of the statute. Since a regulation may not be necessary for the proposed exemption, it is recommended that this mandate be stricken from the bill. If the Board determines that a regulation is necessary, it may prescribe one under the authority of existing law.

- 4. Related legislation.** Several sales and use tax measures have been introduced this session to respond to California's energy crisis. These include the following:

AB 124X (Pescetti) – This measure is similar to AB 695.

AB 27X (Koretz) and SB 71X (Perata) - These measures would, among other things, provide a sales and use tax exemption for purchases of power generating equipment, and, as an alternative, provide an income tax credit for costs incurred for the purchase and installation of a power generation system.

AB 51X (Daucher) - This measure would add an exemption for generators installed under a qualified interruptible service contract of 3 years or more in duration.

AB 58X (Cox) and AB 1319 (Cox) - These measures would both provide a state tax exemption for any solar energy system designed to provide thermal energy for the purpose of heating water or providing electrical power, as specified.

SB 1074 (Soto) - This measure would, until January 1, 2003, exempt from sales and use tax sales and purchases of microturbines, fuel cells, photovoltaic cells, solar thermal water heating systems, wind energy equipment, and electrical generators operating on renewable biomass fuel.

SB 877 (Poochigian) - This measure would exempt purchases of qualified cogeneration equipment, as defined, for use on dairy farms, and would also authorize an income tax credit for an amount equal to the portion of property taxes attributable to those fixtures and improvements to a dairy farm utilized in the cogeneration or transformation of dairy industry by-products into fuel sources used for the operation of that dairy farm.

COST ESTIMATE

Some costs would be incurred in notifying affected retailers and verifying claimed exemptions. These costs are expected to be absorbable.

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REVENUE ESTIMATE**Background, Methodology, and Assumptions****Residential & Commercial Appliances**

Energy Star was introduced by the U.S. Environmental Protection Agency in 1992 as a voluntary labeling program designed to identify and promote energy-efficient products, in order to reduce carbon dioxide emissions. The four major appliances that are part of this program include clothes washers, refrigerators, dishwashers and room air conditioners. Statistics used for the analysis were provided by D & R International and the Association of Home Appliance Manufacturers (AHAM). D & R is a strategic planning and marketing firm that produces market based solutions to energy problems. AHAM is a nonprofit trade association of home appliance manufacturing companies.

Refrigerators

Total California Energy Star refrigerator sales (units) in 2001 are estimated to be 97,485. The average price per refrigerator is \$1,024. Total sales in 2001 are estimated to be \$99.8 million ($\$1,024 \times 97,485 \text{ units} = \99.8 million).

Clothes Washers

Total California Energy Star clothes washer sales (units) in 2001 are estimated to be 112,885. The average price per clothes washer is \$600. Total sales in 2001 are estimated to be \$67.7 million ($\$600 \times 112,885 \text{ units} = \67.7 million).

Dishwashers

Total California Energy Star dishwasher sales (units) in 2001 are estimated to be 77,746. The average price per dishwasher is \$467. Total sales in 2001 are estimated to be \$36.3 million ($\$467 \times 77,746 \text{ units} = \36.3 million).

Room Air Conditioners

There were no estimates provided for California Energy Star air conditioner sales (units) for 2001. In 1996, California had a 5% market share of US air conditioner sales. In 2001, the overall sales of air conditioners in the US were 5.2 million units.

Based on the 1996 statistic (5%), it is estimated that air conditioner sales in California (units) in 2001 would number 260,000 units ($5\% \times 5.2 \text{ million units} = 260,000 \text{ units}$). In a report compiled by D & R in 1999, it was revealed that although promotions have been conducted in California in recent times, the market share for Energy Star air conditioners did not exceed 8%.

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Total California Energy Star air conditioner sales (units) in 2001 are estimated to be 20,800 ($8\% \times 260,000 = 20,800$ units). The average price per air conditioner is \$279. Total sales in 2001 are estimated to be \$5.8 million ($\$279 \times 20,800 \text{ units} = \5.8 million).

Total Expenditures

Total estimated expenditures for 2001 are as follows:

<u>Type</u>	<u>Expenditures (in millions)</u>
Refrigerators	\$ 99.8
Clothes Washers	67.7
Dishwasher	36.3
Room Air Conditioners	<u>5.8</u>
Total	<u>\$ 209.6</u>

Revenue Summary

The annual revenue loss from exempting residential and commercial appliances from the sales and use tax would be as follows:

	<u>Revenue Loss (in millions) 2001</u>
State * (4.75%)	\$ 10.0
Local (2.25%)	4.7
Special District (0.67%)	<u>1.4</u>
Total	<u>\$ 16.1</u>

* The state sales and use tax rate will be 4.75% for calendar year 2001 and is scheduled to be 5% in calendar year 2002.

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